

SECURIT

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ANNUAL AUDITED REPORT
FORM X-17A-5
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Washington, DC

125

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING

December 1, 2010

AND ENDING

November 30, 2011

MM/DD/YY

MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

STERLING GRACE MUNICIPAL SECURITIES CORP.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

100 SUMMERHILL ROAD

(No. and Street)

SPOTSWOOD

(City)

NEW JERSEY

(State)

08884

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

JAMES J. DIRSCHERL

(732) 251-2460

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

SOBEL & CO., LLC

(Name - if individual, state last, first, middle name)

293 EISENHOWER PARKWAY, SUITE 290 LIVINGSTON

(Address)

(City)

NEW JERSEY

(State)

07039-1711

(Zip Code)

CHECK ONE:

☒

Certified Public Accountant

☐

Public Accountant

☐

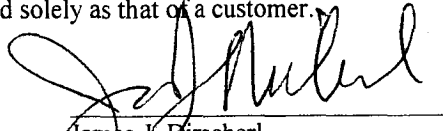
Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

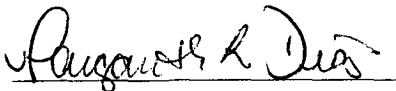
AFFIRMATION

I, James J. Dirscherl, affirm that, to the best of my knowledge and belief, the accompanying financial statements and supplemental schedules pertaining to the firm of Sterling Grace Municipal Securities Corp. for the year ended November 30, 2011, are true and correct. I further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.


James J. Dirscherl
Title: Vice-President

Date: 1-26-12

Sworn to and subscribed before me
This 26th day of January, 2012



Notary Public

Margareth L Diaz
Notary Public - New Jersey
Middlesex County
My Commission Expires August 17, 2015

This report contains (check all applicable boxes):

Facing Page.

- | | | |
|-------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Facing page. |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Statement of financial condition. |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Statement of income (loss). |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Statement of cash flows. |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Statement of changes in stockholders' equity. |
| <input type="checkbox"/> | <input type="checkbox"/> | Statement of changes in liabilities subordinated to claims of general creditors. |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Notes to Financial Statements |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Computation of net capital for brokers and dealers pursuant to Rule 15c3-1. |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Computation for determination of reserve requirements pursuant to Rule 15c3-3. |
| <input type="checkbox"/> | <input type="checkbox"/> | Information relating to possession or control requirements for brokers and dealers under Rule 15c3-3. |
| <input type="checkbox"/> | <input type="checkbox"/> | A reconciliation, including appropriate explanations, of the computation of net capital under Rule 15c3-1 and the computation for determination of the reserve requirements under exhibit A of Rule 15c3-3. |
| <input type="checkbox"/> | <input type="checkbox"/> | A reconciliation between the audited and unaudited statements of financial condition with respect to methods of consolidation. |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | An oath or affirmation. |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | A copy of the Securities Investor Protection Corporation supplemental report. |
| <input type="checkbox"/> | <input type="checkbox"/> | A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit. |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Independent auditor's report on internal control. |
| <input type="checkbox"/> | <input type="checkbox"/> | Schedule of segregation requirements and funds in segregation-customers' regulated commodity futures account pursuant to Rule 171-5. |

* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e) (3).

STERLING GRACE MUNICIPAL
SECURITIES CORP.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING FACING PAGE
NOVEMBER 30, 2011

STERLING GRACE MUNICIPAL SECURITIES CORP.

NOVEMBER 30, 2011

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Sobel & Co., LLC

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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Livingston, NJ 07039-1711
973-994-9494 • Fax 973-994-1571
www.sobel-cpa.com

INDEPENDENT AUDITORS' REPORT

To the Stockholders
Sterling Grace Municipal Securities Corp.
Spotswood, NJ 08884

We have audited the accompanying statement of financial condition of Sterling Grace Municipal Securities Corp. (the "Company") as of November 30, 2011, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sterling Grace Municipal Securities Corp. as of November 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

Livingston, New Jersey
January 25, 2012

Member of



North
America

An association of legally independent firms

Incorporating the firm of M. I. Grossman Company, L.L.C.

STERLING GRACE MUNICIPAL SECURITIES CORP.
STATEMENT OF FINANCIAL CONDITION
NOVEMBER 30, 2011

ASSETS

Cash and cash equivalents	\$ 6,899,717
Securities owned - trading	8,783,462
Accrued interest receivable	185,195
Security deposits	1,995
Loan receivable - employee	65,000
Prepaid taxes	26,652
Other assets	71,636
Total Assets	<u>\$ 16,033,657</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Payable to clearing broker	\$ 8,670,641
Officer loan	200,000
Loan payable - related party	500,000
Accrued expenses	148,060
Taxes payable	24,754
Total Liabilities	<u>9,543,455</u>

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY	<u>6,490,202</u>
Total Liabilities and Stockholders' Equity	<u>\$ 16,033,657</u>

STERLING GRACE MUNICIPAL SECURITIES CORP.
STATEMENT OF OPERATIONS
YEAR ENDED NOVEMBER 30, 2011

REVENUE:

Trading profit	\$ 1,411,401
Interest	1,074,664
Income in investment	21,507
Unrealized loss	<u>(150,102)</u>
Total Revenue	<u>2,357,470</u>

OPERATING EXPENSES:

Compensation	1,354,392
Employee benefits	146,518
Travel and entertainment	9,002
Telephone	7,537
Rent	54,081
Subscriptions	106,677
Office expense	67,280
Clearance charges	23,559
Regulatory fees and assessments	14,692
Interest	516,155
Professional fees	38,320
Postage	1,452
Interest expense - other	39,750
Insurance	<u>1,578</u>
Total Operating Expenses	<u>2,380,993</u>

LOSS BEFORE BENEFIT

FROM FEDERAL INCOME TAXES	(23,523)
---------------------------	----------

BENEFIT FROM FEDERAL INCOME TAXES

<u>856</u>

NET LOSS

<u><u>\$ (22,667)</u></u>

STERLING GRACE MUNICIPAL SECURITIES CORP.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
YEAR ENDED NOVEMBER 30, 2011

	Common Stock*	Retained Earnings	Stockholders' Equity
Balance, December 1, 2010	\$ 48,000	\$ 6,464,869	\$ 6,512,869
Net Loss	-	(22,667)	(22,667)
Balance, November 30, 2011	<u>\$ 48,000</u>	<u>\$ 6,442,202</u>	<u>\$ 6,490,202</u>

* 1,000 shares authorized, 100 shares issued

STERLING GRACE MUNICIPAL SECURITIES CORP.**STATEMENT OF CASH FLOWS****YEAR ENDED NOVEMBER 30, 2011**

CASH FLOWS PROVIDED BY (USED FOR):**OPERATING ACTIVITIES:**

Net loss	\$ (22,667)
Changes in certain assets and liabilities:	
Securities owned - trading	896,694
Interest receivable	63,509
Loan receivable	500
Other assets	(39,944)
Payable to clearing broker	(689,198)
Accrued expenses	15,445
Taxes payable	24,754
Net Cash Provided by Operating Activities	<u>249,093</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 249,093

CASH AND CASH EQUIVALENTS:

Beginning of year	<u>6,650,624</u>
End of year	<u>\$ 6,899,717</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:**Cash paid for:**

Interest	<u>\$ 539,905</u>
Income taxes	<u>\$ 11,343</u>

STERLING GRACE MUNICIPAL SECURITIES CORP.
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2011

NOTE 1 - ORGANIZATION:

Organization:

Sterling Grace Municipal Securities Corp. (the "Company" or "Sterling") is a broker-dealer registered with the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America under the *FASB Accounting Standards Codification*.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents:

The Company considers all short-term investments, if any, with an original maturity of three months or less to be cash equivalents.

Revenue Recognition:

Investment income is recorded when earned. Security transactions are accounted for on the trade date (the date that the order to buy or sell is executed) and the net realized gain or loss on sales of securities is determined by the use of the first-in, first-out (FIFO) method. Recording net realized gains or losses on the average price or specifically identified cost methods would not result in any material differences.

Security Valuation:

Fair Value Measurements establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

STERLING GRACE MUNICIPAL SECURITIES CORP.
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Security Valuation: (Continued)

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1:** Inputs are unadjusted quoted prices in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2:** Inputs are inputs (other than quoted prices included in Level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3:** Inputs are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.

At November 30, 2011, the Company has classified their municipal bonds investments as Level 2 securities based on bid pricing in active bond markets.

Income Taxes:

The Company follows accounting standards that provide clarification on accounting for uncertainty in income taxes recognized in the Company's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. Tax returns for the 2008, 2009, 2010, and 2011 tax year ends are subject to audit by federal and state jurisdictions. At November 30, 2011, there are no significant income tax uncertainties that are expected to have a material impact on the Company's 2011 financial statements.

STERLING GRACE MUNICIPAL SECURITIES CORP.
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Subsequent Events:

The Company has evaluated its subsequent events and transactions occurring after November 30, 2011, through January 25, 2012, the date which the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 3 - CLEARING BROKER:

The Company has entered into a Fully Disclosed Clearing Agreement with Southwest Securities Inc. (the "Clearing Broker"). The Clearing Broker carries cash and margin accounts of the customers introduced by the Company and clears transactions on a fully disclosed basis for such accounts. In addition, the Clearing Broker is responsible for carrying, maintaining and preserving such books and records pertaining to its function as a Clearing Broker pursuant to the requirements of rules 17a-3 and 17a-4 of the Securities and Exchange Commission Act.

The Agreement provides for its termination upon ninety (90) days notice from either party or default under its terms.

At November 30, 2011, the amount due to the Clearing Broker was \$8,670,641. All amounts due to the Clearing Broker are collateralized by the municipal bonds held by the Company. The Clearing Broker charges interest monthly at varying rates. Interest expense amounted to \$516,155 for the year ended November 30, 2011.

NOTE 4 - LOAN RECEIVABLE - EMPLOYEE

In April 2001, the Company loaned an employee \$126,000. The loan bears interest at 7.375%. The loan is secured by the employee's personal guarantee and is due on demand. At November 30, 2011 the loan balance is \$65,000. Interest earned of \$4,797 has been recorded in interest income as of November 30, 2011.

NOTE 5 - OFFICER LOAN:

On March 31, 2002, an officer of the Company loaned the Company \$200,000. The loan, which bears interest at 8%, is unsecured and payable on demand. Interest is paid annually. Interest incurred on this loan and charged to interest expense - other through November 30, 2011 amounted to \$16,000.

STERLING GRACE MUNICIPAL SECURITIES CORP.
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2011

NOTE 6 - LOAN PAYABLE-RELATED PARTY:

On December 5, 2006, Spotswood Partners, a related entity, loaned the Company \$500,000. The loan bears interest at 4.75%. The loan is unsecured and payable on demand. Interest is required to be paid semi-annually. Interest charged to interest expense-other, amounted to \$23,750 at November 30, 2011.

NOTE 7 - 401 K ROTH PLAN:

The Company sponsors a 401K Roth plan covering all full-time employees who have two years of service and are age 21 or older. Employer matching contributions to the plan are determined each year by the officers of the Company. The Company did not make a contribution during the year ended November 30, 2011.

NOTE 8 - COMMITMENTS:

The Company renewed its 24 month non-cancelable operating office lease expiring February 2012, at a monthly rental of \$4,548. The rent will be increased on a yearly basis based on the Consumer Price Index. The future minimum rent payments required under such non-cancelable operating lease as of November 30, 2011 is as follows:

<u>Year</u>	
2012	<u>\$ 9,096</u>

NOTE 9 - NET CAPITAL REQUIREMENTS:

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1).

STERLING GRACE MUNICIPAL SECURITIES CORP.
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2011

NOTE 9 - NET CAPITAL REQUIREMENTS: (Continued)

At November 30, 2011, the Company has net capital of \$5,706,082, which was \$5,606,082 in excess of its minimum dollar net capital requirement of \$100,000.

The Company is not required to furnish the “computation of reserve requirements” under rule 15c3-3 of the Securities and Exchange Commission due to the fact that it qualifies for, and complies with the exemptive provision k(2)(ii) of rule 15c3-3. This provision exempts brokers or dealers, who clear all transactions on behalf of customers with a Clearing Broker on a fully disclosed basis, from having to furnish the “computation of reserve requirements.”

NOTE 10 - INCOME TAXES:

The Company takes into account the effect of current and deferred taxes when determining its provision for income taxes. After taking into consideration the effects of certain non-taxable income, and the availability of loss carryovers to offset the current year taxable income, the Company has recorded a current tax provision for the year ended November 30, 2011.

NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

As a securities broker and dealer, the Company is engaged in various securities trading and brokerage activities servicing a diverse group of institutional investors. These activities may expose the Company to off-balance-sheet credit risk in the event a customer is unable to fulfill its contracted obligation.

The Company trades almost exclusively in municipal bonds and is therefore exposed to risks associated with this market.



Sobel & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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www.sobel-cpa.com

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

To the Stockholders
Sterling Grace Municipal Securities Corp.
Spotswood, New Jersey

We have audited the accompanying financial statements of Sterling Grace Municipal Securities Corp. as of and for the year ended November 30, 2011, and have issued our report thereon dated January 25, 2012. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

Livingston, New Jersey
January 25, 2012

Member of



North
America

An association of legally independent firms

Incorporating the firm of M. I. Grossman Company, L.L.C.

STERLING GRACE MUNICIPAL SECURITIES CORP.
SUPPLEMENTARY INFORMATION
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
NOVEMBER 30, 2011

NET CAPITAL:

Total stockholders' equity qualified for net capital	\$ 6,490,202
Deductions and charges:	
Nonallowable assets:	
Accrued interest receivable	59,734
Security deposits	1,995
Loan receivable - employee	65,000
Prepaid taxes	26,652
Other assets	11,902
Total Nonallowable Assets	<u>165,283</u>
Net Capital Before Haircuts on Securities Position	<u>6,324,919</u>
Haircuts on securities:	
Federal obligations	-
State and municipal government obligations	618,837
Undue concentrations	-
Total Haircuts on Securities Positions	<u>618,837</u>
NET CAPITAL	<u><u>\$ 5,706,082</u></u>

AGGREGATE INDEBTEDNESS:

Items included in statements of financial condition:	
Accrued expenses	\$ 148,060
Taxes payable	24,754
Notes payable	<u>700,000</u>
TOTAL AGGREGATE INDEBTEDNESS	<u><u>\$ 872,814</u></u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS:

Net capital requirement	\$ 100,000
Excess net capital	<u>\$ 5,606,082</u>
Excess net capital at 1000%	<u>\$ 5,697,354</u>
Ratio: aggregate indebtedness to net capital	<u><u>0.2 to 1</u></u>

RECONCILIATION WITH COMPANY'S COMPUTATION:

Included in Part IIA of Form X-17A-5 as of	
November 30, 2011	
Net capital, as reported in Company's	
(Unaudited) FOCUS report Part IIA	\$ 5,706,082
Net audit adjustments	<u>-</u>
NET CAPITAL PER ABOVE	<u><u>\$ 5,706,082</u></u>

STERLING GRACE MUNICIPAL SECURITIES CORP.
SUPPLEMENTARY INFORMATION
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION
NOVEMBER 30, 2011

Sterling Grace Municipal Securities Corp. is not required to furnish this schedule due to its compliance with the exemptive provision k(2)(ii) of rule 15c3-3. All customer transactions have been cleared through another broker-dealer (Southwest Securities Inc.) on a fully disclosed basis.

STERLING GRACE MUNICIPAL
SECURITIES CORP.

INDEPENDENT AUDITORS' REPORT ON INTERNAL
ACCOUNTING CONTROL REQUIRED BY SEC RULE 17a-5(g)(1)

NOVEMBER 30, 2011



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Washington, DC
125

**INDEPENDENT AUDITORS' REPORT ON INTERNAL
ACCOUNTING CONTROL REQUIRED BY SEC RULE 17a-5(g)(1)**

To the Stockholders
Sterling Grace Municipal Securities Corp.
Spotswood, New Jersey

In planning and performing our audit of the financial statements information of Sterling Grace Municipal Securities Corp. (the "Company"), as of and for the year ended November 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

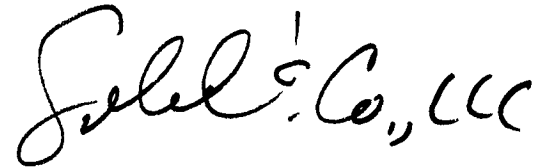
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at November 30, 2011 to meet the SEC's objectives.

This report is intended solely for the information and use of the stockholders, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sobel & Co., LLC". The signature is written in a cursive, flowing style.

Certified Public Accountants

Livingston, New Jersey
January 25, 2012



INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES RELATED
TO AN ENTITY'S SIPC ASSESSMENT RECONCILIATION

To the Stockholders
Sterling Grace Municipal Securities Corp.
Spotswood, New Jersey

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments [General Assessment Reconciliation (Form SIPC-7)] to the Securities Investor Protection Corporation (SIPC) for the year ended November 30, 2011, which were agreed to by Sterling Grace Municipal Securities Corp. and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating Sterling Grace Municipal Securities Corp.'s compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). Sterling Grace Municipal Securities Corp.'s management is responsible for the Sterling Grace Municipal Securities Corp.'s compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries noting no differences;
2. Compared the amounts reported on Form X-17A-5 for the year ended November 30, 2011, as applicable, with the amounts reported in Form SIPC-7 for the year ended November 30, 2011, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences;
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments; if any, noting no differences.
5. Compare the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed noting no differences.

Member of

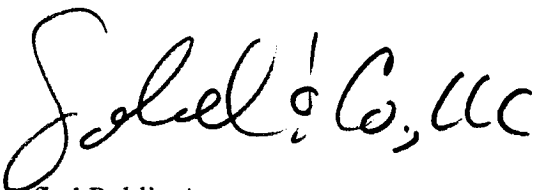


**North
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An association of legally independent firms

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

Livingston, New Jersey
January 25, 2012

SIPC-7

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION
P.O. Box 92185 Washington, D.C. 20090-2185
202-371-8300

General Assessment ReconciliationFor the fiscal year ended Nov 30, 20 11

(Read carefully the instructions in your Working Copy before completing this Form)

SIPC-7

(33-REV 7/10)

TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

8-020003 FINRA NOV 1/2/1976
STERLING GRACE MUNICIPAL
100 SUMMERHILL RD
SPOTSWOOD, NJ 08884

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

JAMES DIRSCHERL 732-251-2460

2. A. General Assessment (item 2e from page 2)

\$ 4180

B. Less payment made with SIPC-6 filed (exclude interest)

(2281)

Date Paid

C. Less prior overpayment applied

(181)

D. Assessment balance due or (overpayment)

E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum

F. Total assessment balance and interest due (or overpayment carried forward)

\$ 1718

G. PAID WITH THIS FORM:

Check enclosed, payable to SIPC

Total (must be same as F above)

\$ 1718

H. Overpayment carried forward

\$()

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

STERLING GRACE MUNICIPAL SECURITIES
(Name of Corporation, Partnership or other organization)
[Signature]
(Authorized Signature)
VIC PRESIDENT
(Title)

Dated the 11 day of JANUARY, 20 12

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER

Dates:

Postmarked _____

Received _____

Reviewed _____

Calculations _____

Documentation _____

Forward Copy _____

Exceptions:

Disposition of exceptions:

DETERMINATION OF "SIPC NET OPERATING REVENUES" AND GENERAL ASSESSMENT

Amounts for the fiscal period
beginning Dec 1, 2010
and ending Nov 30, 2011

Eliminate cents

\$ 2,251,604

Item No.

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

2b. Additions:

- (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.
- (2) Net loss from principal transactions in securities in trading accounts.
- (3) Net loss from principal transactions in commodities in trading accounts.
- (4) Interest and dividend expense deducted in determining item 2a.
- (5) Net loss from management of or participation in the underwriting or distribution of securities.
- (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.
- (7) Net loss from securities in investment accounts.

Total additions

2c. Deductions:

- (1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.
- (2) Revenues from commodity transactions.
- (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.
- (4) Reimbursements for postage in connection with proxy solicitation.
- (5) Net gain from securities in investment accounts.
- (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.
- (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).
- (8) Other revenue not related either directly or indirectly to the securities business.
(See Instruction C):

(Deductions in excess of \$100,000 require documentation)

- (9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.

\$ 555,905

- (ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).

\$ 0

Enter the greater of line (i) or (ii)

Total deductions

2d. SIPC Net Operating Revenues

2e. General Assessment @ .0025

555,905

579,464

\$ 1,672,140

\$ 4,180

(to page 1, line 2.A.)